

## GENERAL INFORMATION

*The purpose of the Community Reinvestment Act of 1977 ("CRA"), 12 U.S.C. 2901, as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. CRA requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its communities. The agency considers the institution's record of performance when deciding whether to approve any applications submitted by the institution.*

*This document is an evaluation of the CRA performance of M&I Community State Bank, Eau Claire, Wisconsin, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of May 11, 1998. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

### ***Basis for the Rating***

*The assessment of the institution's record takes into account its financial capacity and size; legal impediments; and local economic conditions and demographics, including the competitive environment in which the institution operates. Assessing the institution's CRA performance is a process that does not rely on absolute standards. Institutions are neither required to adopt specific activities nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its assessment areas. In that light, this evaluation is based on a review of the institution's loans, investments, and services, as detailed in this evaluation.*

### **INSTITUTION'S CRA RATING:** This institution is rated "Satisfactory."

Several factors support the bank's satisfactory CRA rating. First, the bank's performance under the Lending Test is rated high satisfactory. Support for this rating comes from the bank's good distribution of lending in geographies of different income levels, particularly in the bank's moderate-income census tracts. In addition, the bank has strong use of innovative and flexible lending practices, particularly with in-house and government-sponsored residential real estate programs designed for low- and moderate-income individuals. The bank's overall lending levels and lending in the assessment areas also are strong. The bank has a good distribution of loans among borrowers of different income levels and businesses of different sizes.

Second, the bank's performance under the Service Test is rated high satisfactory. The bank's office and automated teller machine ("ATM") locations are accessible to all residents of the assessment areas, including residents of low- and moderate-income tracts. In addition, the bank has a wide range of convenient and effective retail banking services that are accessible to all assessment area residents. In addition, the bank has an adequate level of community development services.

Finally, the bank's performance under the lending test is rated needs to improve. As noted at the previous evaluation, the bank's investment portfolio contains no qualified investments. While bank management

and community contacts indicated that there have been few opportunities to purchase qualified investments, the bank's level of activity is less than adequate given the bank's capacity to invest and opportunities in broader areas that include the assessment areas.

*The following table indicates the performance level of M&I Community State Bank, Eau Claire, Wisconsin, with respect to the Lending, Investment, and Service tests.*

PERFORMANCE LEVELS	M&I COMMUNITY STATE BANK, EAU CLAIRE, WISCONSIN, PERFORMANCE TESTS		
	LENDING TEST*	INVESTMENT TEST	SERVICE TEST
Outstanding			
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve		X	
Substantial Noncompliance			
*The Lending Test is weighted more heavily than the Investment and Service tests when deriving the overall CRA rating.			

## DESCRIPTION OF INSTITUTION

The bank is able to meet the credit needs of its assessment areas effectively. The bank received a satisfactory rating at the conclusion of its last CRA evaluation in June 1997.

As of the evaluation date, the bank operated 11 full-service offices, one paying and receiving station, and 12 ATMs. Two ATMs have been added since the previous evaluation. Seven of the 12 ATMs are full-service. The bank's offices are located throughout five west-central Wisconsin counties. Based on the office locations and the bank's lending territories, it has defined two metropolitan assessment areas and one nonmetropolitan assessment area for CRA purposes. The two metropolitan assessment areas consist of the Eau Claire Assessment Area and the Prescott/River Falls/Ellsworth Assessment Area. The Eau Claire assessment area includes Eau Claire and Chippewa counties, which comprise the Eau Claire, Wisconsin, metropolitan statistical area ("Eau Claire MSA"). In addition, this assessment area includes portions of Clark and Trempealeau counties. The Prescott/River Falls/Ellsworth assessment area includes the eastern section of St. Croix County as well as Pierce County. These counties are included in the Minneapolis-St. Paul, Minnesota, metropolitan statistical area ("Minneapolis-St. Paul MSA"). The bank does not have any offices in the Minnesota portion of the Minneapolis-St. Paul MSA. The Menomonie Assessment Area is the bank's nonmetropolitan assessment area. It is comprised of Dunn and Pepin counties and located between the two metropolitan assessment areas. This CRA evaluation is based on a review of all three assessment areas.

The bank's main office is located at 301 Water Street in Eau Claire, Wisconsin, near the campus of the University of Wisconsin-Eau Claire. The bank's remaining 10 offices are located in the following Wisconsin communities: Bloomer, Boyd, Chippewa Falls, Eau Claire, Ellsworth, Fall Creek, Menomonie, Prescott, River Falls, and Thorp. The detached facility is located in Eau Claire across the street from the bank's main office. The following table illustrates the distribution of the bank's offices by geographic location.

<b>GEOGRAPHIC LOCATION AND INCOME CLASSIFICATION</b>					
<i>Office</i>	<i>Geography*</i>	<i>Low Income</i>	<i>Moderate Income</i>	<i>Middle Income</i>	<i>Upper Income</i>
Main Office	MSA 2290 County 35 CT 12.00			X	
Bloomer	MSA 2290 County 17 CT 112			X	
Boyd	MSA 2290 County 17 CT 108			X	
Chippewa Falls	MSA 2290 County 17 CT 103			X	
Eau Claire Highway 93	MSA 2290 County 35 CT 8.00				X
Ellsworth	MSA 5120 County 93 BNA 9607		X		
Fall Creek	MSA 2290 County 35 CT 2.00			X	
Menomonie	County 33 BNA 9708			X	
Prescott	MSA 5120 County 93 BNA 9605			X	
River Falls	MSA 5120 County 93 BNA 9603			X	
Thorp	County 19 BNA 9503			X	
*A geography is a census tract ("CT") or block numbering area ("BNA") as delineated by the U.S. Bureau of the Census.					

As the table illustrates, the bank has one office in a moderate-income geography, one office in an upper-income geography, and nine offices in middle-income geographies. The detached paying and receiving station is also located in a middle-income geography. Of the 12 ATMs, six are located in various parts of Eau Claire; three of the six Eau Claire ATMs are located at the large regional shopping mall. The shopping mall is located in an upper-income geography. Of the three remaining ATMs in Eau Claire, two are located in an upper-income geography and one is located in a middle-income geography. The bank has three ATMs in Menomonie and one each in Chippewa Falls, Prescott, and River Falls. Both of the ATMs placed in service since the previous evaluation are located in Eau Claire.

The bank has closed two full-service banking offices and the loan production office since the previous evaluation. The Altoona branch was closed in August 1997 because the bank was unable to renew its lease on the space. This branch was located in a middle-income geography. The bank's Highway 93

office in Eau Claire has been able to serve the bank's Altoona customers with little inconvenience. Bank management indicated that it is still exploring opportunities to reopen an office in the Altoona area. The bank also closed the East Ellsworth, Wisconsin, office in July 1997. This office was located less than a mile from the bank's Ellsworth office in a moderate-income geography. This branch closing has also had a minimal effect on the bank's customers. The loan production office was closed in November 1997 because of a lack of business. Applications that were received at this office are now processed at the two full-service offices in Eau Claire. Again, there was minimal effect to the bank's customers.

The bank's size does not restrict its ability to meet the credit needs of residents, businesses, and farms within its assessment areas. According to the March 31, 1998, Report of Condition ("ROC"), the bank had total assets of approximately \$466 million. Loan growth has been steady over the previous four quarters. The bank's lending activity is primarily in commercial loans and residential real estate lending. Approximately 46% of the bank's loan portfolio is in commercial loans, 28% is in residential real estate loans, 13% is in consumer loans, 13% agricultural loans, and less than 1% is in other loans. The composition of the bank's loan portfolio reflects the level of demand for specific types of credit by residents, businesses, and farms in the bank's three assessment areas.

The bank is a subsidiary of Marshall & Ilsley Corporation, Milwaukee, Wisconsin ("M&I Corporation"). M&I Corporation has total consolidated assets of \$19.6 billion as of March 31, 1998. A large number of the bank's consumer real estate loans are originated by or sold to the affiliated M&I Mortgage Corporation.

The bank offers a variety of loan products to meet the credit needs of residents, businesses, and farms within its assessment areas. It extends conventional consumer, residential real estate, commercial, and agricultural loans for a variety of purposes. The bank's residential real estate loan products include adjustable-rate mortgages, construction loans, fixed-rate loans with 15- to 30-year maturities and balloon payment loans with one- to seven-year maturities. The bank also offers consumer closed-end loans for a variety of purposes. Its open-end products include personal reserve, credit card, and home equity lines of credit. It also extends loans to municipalities and issues letters of credit for local businesses.

In addition to its conventional loan offerings, the bank offers a wide assortment of government-guaranteed and special in-house loan products, such as government-guaranteed student loans. It offers Small Business Administration ("SBA"), Wisconsin Housing and Economic Development Authority ("WHEDA"), and Wisconsin Business Development Finance Corporation commercial loans. The bank also offers commercial loans pursuant to the Petroleum Environmental Cleanup Fund Act's ("PECFA") program for environmental cleanup projects. The bank provides residential real estate loans guaranteed by the following government agencies: Federal Housing Administration, Department of Veterans Affairs ("VA"), State of Wisconsin Department of Veterans Affairs ("State VA"), and WHEDA. Finally, the bank offers residential real estate loans under its Neighborhood Home Loan Program ("NHLP"), a home purchase loan program with low down-payment requirements.

## **DESCRIPTION OF M&I COMMUNITY STATE BANK'S OVERALL ASSESSMENT AREAS**

The bank's overall assessment area consists of three assessment areas based on the location of the bank's branch offices. Because the bank has branch offices in MSAs, the regulation requires an analysis of the bank's performance in each MSA. In addition, the bank is required to report data regarding its real estate loan activity in accordance with the Home Mortgage Disclosure Act ("HMDA"). The bank's combined assessment areas consist of 49 census tracts and 10 BNAs. According to 1990 U. S. Census data, the population of the combined assessment area is 252,167.

CRA divides income into four categories: low, moderate, middle, and upper. The categorization of a

borrower or geography's income level is determined relative to the MSA median family income for MSA areas and the statewide nonmetropolitan median family income for non-MSA areas. According to the regulation, low-income individuals have incomes of less than 50% of the MSA or statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. Middle-income individuals have incomes of at least 80% but less than 120% of the MSA or statewide nonmetropolitan median family income. Individuals with incomes of 120% or more of these figures are considered upper income.

According to 1990 census data, the Eau Claire MSA median family income is \$31,613; the Minneapolis-St. Paul MSA median family income is \$43,063; and the Wisconsin nonmetropolitan median family income is \$30,290. These figures are used to determine the income level of a census tract or BNA. Conversely, a borrower's income level is determined using updated data prepared by the U.S. Department of Housing and Urban Development. For loans originated in 1997, the Eau Claire MSA median family income is \$40,100; the Minneapolis-St. Paul MSA median family income is \$57,300; and the Wisconsin nonmetropolitan median family income is \$39,600. For loans originated in 1998, the Eau Claire MSA median family income is \$42,100, the Minneapolis-St. Paul MSA median family income is \$60,800; and the Wisconsin nonmetropolitan median family income is \$41,800.

In the combined assessment area, there is one low-income census tract. This tract reported no households or families and is the site of a state hospital that houses severely developmentally disabled individuals. In addition, some commercial entities are located in this tract. Middle-income tracts are the most prevalent in the assessment area; 74% of the tracts fall into this classification. Of the remaining tracts, 16% are classified as moderate-income tracts and 10% are classified as upper-income tracts. The 1990 census data indicate that there are 90,439 households in the combined assessment areas. Of these households, 25% are classified as low income, 17% are classified as moderate income, 21% are classified as middle income, and 37% are classified as upper income. In addition, of the 63,825 families in the assessment areas, 20% are classified as low income, 20% are classified as moderate income, 26% are classified as middle income, and 34% are classified as upper income. Approximately 13% of the households and 9% of the families have incomes below the poverty level.

Of the housing units in the total assessment areas, 65.3% are owner occupied. There are no owner-occupied units in the low-income tract and 10,026 units in the moderate-income tracts. These units represent 16% of the owner-occupied housing units in the assessment area. The distribution of owner-occupied units is consistent with the distribution of population and families in the moderate-income tracts. Although housing in the assessment area is relatively affordable, the affordability index is .51; median rent is also low at \$344, making rental housing an attractive alternative to homeownership.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

The bank's CRA performance as evaluated based on the Lending, Investment, and Service tests is rated satisfactory.

### **OVERALL INSTITUTION ANALYSIS**

#### **Lending Test**

The bank's performance under the Lending Test is rated high satisfactory. The evaluation is based on a review of the bank's lending performance in all three assessment areas. The analysis on the following pages is based in part on a review of 102 home improvement, 473 home purchase, 17 multifamily, and 353 real estate refinancing loans originated in 1997 and the first quarter of 1998. In addition, 679 small

business and 662 small farm loans originated in 1997 were reviewed.<sup>1</sup> The majority of the bank's lending activity occurs in the Eau Claire assessment area. The following table illustrates the distribution of lending by assessment area.

	<b>Real Estate</b>	<b>Small Business</b>	<b>Small Farm</b>
Eau Claire	64%	69%	72%
Prescott/River Falls/Ellsworth	21%	18%	14%
Menomonie	15%	13%	14%

The greatest weight was placed on the bank's performance in the Eau Claire assessment area in determining the overall rating. This assessment area includes the greatest population of individuals and businesses of the three assessment areas. In addition, the bank's main office and several other offices are in this assessment area. The evaluation of the bank's lending performance under CRA focused on several criteria: lending activity; loans in the assessment area; geographic distribution of loans; loans to borrowers of different incomes and businesses of different sizes; efforts to meet credit needs of highly economically disadvantaged areas, low-income residents and small businesses; community development loans; and innovative and flexible loan products. Overall, the bank has a good record of meeting community credit needs.

### **Lending Activity**

The bank's lending performance continues to be strong since the previous evaluation. As noted, the bank reported making 102 home improvement, 473 home purchase, 17 multifamily real estate, and 353 real estate refinancing loans in 1997 and the first quarter of 1998. Similarly, the bank reported making 679 small business and 662 small farm loans in 1997. The bank's loan-to-deposit ratio has been consistently high in the four quarters since the last evaluation. The quarterly average of the bank's net loan-to-deposit ratio for this time period is 82%. While net loans have increased 5.2% since the previous evaluation, deposits have decreased. Bank management attributes the loss of deposits to a competitive banking environment and the strong performance of the stock market.

The bank's loan data do not reflect residential real estate loans sold on the secondary market since the last evaluation. In addition, the net loan-to-deposit data do not include unfunded loan commitments, which represent funds the bank has agreed to loan but has not yet extended. The March 31, 1998, ROC indicated that the bank had approximately \$76.8 million, or 26% of its net loan portfolio, in unfunded commitments.

Bank management identified several competitors within its three assessment areas. In Eau Claire, competitors include Firststar Bank Wisconsin; Norwest Bank Wisconsin, N.A.; Royal Credit Union, Charter Bank Eau Claire; American Bank; and the branch office of Peoples National Bank, Hayward. In Chippewa Falls, competitors include The Northwestern Bank and the branch office of Citizens State Bank, Cadott, Wisconsin. In Menomonie, the competitors include First Bank and Trust; First American Bank, N.A.; and branch offices of Citizens State Bank, Woodville, Wisconsin; and Farmers and Merchants State Bank, Stanley. In River Falls and Prescott, competitors include River Falls State Bank

---

<sup>1</sup>Year-to-date 1998 data for small business and small farm loans were not available at the time of the evaluation.

and the First National Bank of River Falls. The following table shows the quarterly average net loan-to-deposit ratios for the four quarters since the last evaluation. Data is included for the bank and some of the bank's competitors; however, banks that are branches of large regional financial institutions cannot provide meaningful data for the specific assessment areas.

<b>BANK</b>	<b>TOTAL ASSETS March 31, 1998 (In thousands)</b>	<b>QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO</b>
M&I Community State Bank Eau Claire, Wisconsin	\$466,487	82%
American Bank Eau Claire, Wisconsin	\$67,490	84%
Charter Bank Eau Claire Eau Claire, Wisconsin	\$118,869	75%
Peoples National Bank Hayward, Wisconsin	\$127,710	96%
Northwestern Bank Chippewa Falls, Wisconsin	\$162,583	64%
Citizens State Bank Cadott, Wisconsin	\$68,253	72%
First Bank and Trust Menomonie, Wisconsin	\$70,094	70%
First American Bank, N.A. Menomonie, Wisconsin	\$338,793	70%
Citizens State Bank Woodville, Wisconsin	\$65,698	85%
Farmers & Merchants State Bank Stanley, Wisconsin	\$56,559	81%
Peoples State Bank of Bloomer Bloomer, Wisconsin	\$75,838	68%
First National Bank of River Falls River Falls, Wisconsin	\$168,756	77%
River Falls State Bank River Falls, Wisconsin	\$61,447	67%

The many financial institutions that operate in the bank's assessment areas create a competitive banking environment. As the net loan-to-deposit ratio data indicate, the bank's level of lending is strong, especially when compared with the larger banks in the assessment areas. In addition to banking competition, several nonbank entities extend credit to residents and businesses in the bank's assessment areas. Community members who are familiar with the economic characteristics of the bank's assessment areas also describe the market as competitive.

The bank's general lending performance compares favorably with its peer group. According to data from the March 31, 1998, Uniform Bank Performance Report ("UBPR"), the bank's net loan-to-deposit ratio of 85% is above the peer average of 74%. In addition, among the institutions required to report lending data under CRA,<sup>2</sup> the bank originated 37% of the loans reported for small businesses and 94% of the loans reported for small farms in Eau Claire assessment area.

<sup>2</sup>Only those institutions with total assets of more than \$250 million or subsidiaries of holding companies with total banking and thrift assets of more than \$1 billion report data.



A review of the lending data (the bank's consistently strong loan-to-deposit ratio, comparison with its competitors, its UBPR peer group ranking, and the lack of identified credit needs in the assessment area), in conjunction with the bank's secondary market transactions and unfunded loan commitments, evidence the bank's readiness to extend credit. Consequently, the bank's overall lending activity reflects good responsiveness to the assessment areas' credit needs.

### **Assessment Area Concentrations**

The bank's lending activity is heavily concentrated in the assessment areas. The loans reported by the bank for 1997 and the first quarter of 1998 (real estate only) reveal that a substantial majority of the bank's loans are originated in the assessment areas. The table below shows the percentage of loans by total number and dollar amount originated within the assessment area for each major product category.

<b>PERCENTAGE OF LOANS IN THE ASSESSMENT AREA</b>		
<b>LOAN TYPE</b>	<b>TOTAL NUMBER OF LOANS</b>	<b>TOTAL DOLLAR AMOUNT OF LOANS</b>
Home Improvement	95%	98%
Home Purchase	86%	87%
Multifamily Housing	88%	92%
Refinancing	94%	94%
Small Business	94%	94%
Small Farm	94%	95%

As noted in the table, the data reflect that the bank originated almost all of its loans within the assessment areas. This level of lending in the assessment areas has remained strong since the previous evaluation. Accordingly, the bank's assessment area lending activity evidences strong support of the communities' credit needs. In general, the bank's lending concentration in its assessment areas is excellent.

### **Geographic Distribution of Loans**

As discussed in detail for the bank's metropolitan and nonmetropolitan assessment areas, the distribution of the bank's loans in the assessment areas is good and reflects good penetration of census tracts of various income levels. The census tracts and BNAs that comprise the bank's combined assessment areas are classified as low, moderate, middle and upper income. The one low-income tract does not have any reported income, households, or families. There is a state institution for severely developmentally disabled individuals and some industrial entities located in this tract. The population in this tract represents less than 1% of the combined assessment area's population. The following table reflects the geographic distribution of loans in the bank's combined assessment areas.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA OR CENSUS TRACT INCOME LEVEL (Geography)</b>				
<b>Loan Type</b>	<b>Low-Income Geographies</b>	<b>Moderate-income Geographies</b>	<b>Middle-Income Geographies</b>	<b>Upper-Income Geographies</b>
<b><u>Home Improvement</u></b>				
Total Number of Loans	0%	19%	73%	8%
Total Amount of Loans	0%	32%	58%	10%
<b><u>Home Purchase</u></b>				
Total Number of Loans	0%	12%	77%	11%
Total Amount of Loans	0%	11%	76%	13%
<b><u>Multifamily Real Estate</u></b>				
Total Number of Loans	0%	13%	53%	33%
Total Amount of Loans	0%	8%	58%	34%
<b><u>Refinancing</u></b>				
Total Number of Loans	0%	16%	77%	8%
Total Amount of Loans	0%	13%	78%	9%
<b><u>Small Business</u></b>				
Total Number of Loans	0%	12%	77%	11%
Total Amount of Loans	0%	11%	74%	15%
<b><u>Small Farm</u></b>				
Total Number of Loans	0%	21%	69%	10%
Total Amount of Loans	0%	18%	74%	8%

The data in the table show that the bank lends in geographies of various income levels. As discussed earlier, it is reasonable for the bank to have no penetration in the low-income tract. However, the bank did report one small business loan that was originated in this tract. Approximately 71% of the combined assessment area's geographies are classified as middle income; therefore, the distribution of loans among various geographies appears reasonable. As noted in the Description of the Bank's Overall Assessment Area, approximately 16% of the population, families, and owner-occupied housing units are in the moderate-income tracts and BNAs. The bank's lending, in general, is distributed in a manner consistent with this distribution. Additional detail about geographic distribution and the bank's performance in the metropolitan and nonmetropolitan assessment areas is provided on the following pages of the evaluation.

### **Borrowers' Profiles**

As discussed in detail for the bank's metropolitan and nonmetropolitan assessment areas, the distribution of loans to borrowers of different income levels and businesses of different sizes reflects good penetration of the various income levels. The following table illustrates the distribution by borrower income levels for the combined assessment areas.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREAS BY BORROWER INCOME LEVELS*</b>				
<b>Loan Type</b>	<b>Low-Income Borrowers</b>	<b>Moderate-Income Borrowers</b>	<b>Middle-Income Borrowers</b>	<b>Upper-Income Borrowers</b>
<b><u>Home Improvement</u></b>				
Total Number of Loans	14%	33%	22%	31%
Total Amount of Loans	11%	22%	19%	47%
<b><u>Home Purchase</u></b>				
Total Number of Loans	6%	26%	30%	37%
Total Amount of Loans	3%	19%	26%	52%
<b><u>Refinancing</u></b>				
Total Number of Loans	8%	19%	32%	40%
Total Amount of Loans	4%	13%	28%	55%
*Income level is determined based on the 1998 median family income of \$42,100 for the Eau Claire MSA; \$60,800 for the Minneapolis-St. Paul MSA; and \$41,800 for the nonmetropolitan areas of Wisconsin.				

As previously stated, low-income households and families represent 25% and 20% of the overall assessment area's population, respectively. Moderate-income households and families represent 17% and 20% of the combined assessment area's population, respectively. The income data reported by the bank reveals that it is adequately meeting the needs of individuals of all income levels. In addition, a review of the bank's 1996 HMDA data indicates that bank's lending to low- and moderate-income borrowers is consistent with other lenders in its metropolitan assessment areas.

The bank's lending to small businesses and farms is also good as shown in the table below.

<b>SMALL BUSINESS AND SMALL FARM LOANS TO SMALL BUSINESSES</b>		
	<b>% of Loans to Small Businesses and Farms</b>	<b>% of Small Business or Farm Loans With Amount &lt;\$100M</b>
<b><u>Small Business</u></b>		
Number	75	83
Amount	47	41
<b><u>Small Farm</u></b>		
Number	98	90
Amount	91	63

As shown, a significant amount of the bank's small business loans and almost all the small farm loans are for amounts under \$100,000. Additional detail about each assessment area as well as the bank's level of lending to businesses and farms of different sizes is provided on the following pages of this evaluation.

### **Record of Serving Highly Economically Disadvantaged Areas, Low-Income People, and Small Businesses**

The bank's record of serving low-income people and small businesses is good. The bank's assessment areas do not include any highly economically disadvantaged areas. As previously mentioned, the only low-income geography in the assessment area is the site of a state institution housing severely developmentally disabled individuals. The 1990 census data revealed that there were no households or families living in this tract. The bank made 14% of its home improvement loans, 6% of its conventional

home purchase loans, and 8% of its refinance loans to low-income borrowers. Although below the percentage of families in the assessment area that are low-income, the relatively low rents in the assessment area may limit demand for home purchase loans by low-income borrowers in the assessment area. The bank has a good record of serving low-income borrowers in its metropolitan assessment areas. The bank has a number of loan programs designed to assist low-income borrowers. As discussed above, the bank's record of lending to small businesses and small farms throughout its assessment areas is excellent. The bank is a very aggressive small business lender. In addition, it participates in programs to improve access to credit for small businesses and small farms.

### **Community Development Lending Activities**

The CRA loan data provided by the bank indicates that it did not report any community development loans in 1997. Since the previous evaluation, the bank has made a number of loans that serve community development purposes. However, such loans are generally classified as small business loans pursuant to CRA's definitions.

In April 1998, the bank extended a loan for \$1.3 million to build an assisted-living center in Bloomer, Wisconsin, for individuals who cannot take care of all their personal needs. The entity is qualified to receive Medicare and Medicaid payments to assist residents with their housing costs. These payment subsidies are generally available to low- and moderate-income individuals. The bank has extended another \$400M to renovate an affiliated community-based residential care facility also in Bloomer.

The bank is an active participant in several loan pools that are administered in conjunction with local economic development organizations. While the loans made with these funds are for such community development purposes as job creation and business expansion, the loans do not meet the strict definitions of community development lending pursuant to the regulation. According to community contacts and bank management, there have been few opportunities for the bank to finance qualified community development projects in the assessment area since the last evaluation. Given the lack of opportunity in the assessment areas, the bank's level of community development lending is adequate.

### **Product Innovation and Flexibility**

The bank offers a variety of loan products and loan terms that evidence its willingness to offer flexible and innovative lending criteria. Other M&I-affiliated banks also offer most of these products. For example, the bank offers an innovative home equity credit line product, the MI Master Line. The terms of this loan program allow the borrower to convert the open-end line of credit to as many as four closed-end installment loans. The amount of accessible open-end credit increases as the borrower pays down the installment loans.

The NHLP loan program is a good example of an innovative loan program; it is designed to help lower-income individuals buy homes. Several M&I-affiliated banks offer this loan program. Under the program terms, the borrower may obtain an adjustable rate mortgage or 5-year balloon loan with a 3% down payment. Unlike conventional real estate loans, the bank does not require private mortgage insurance on these loans. In addition, program brochures state that timely rent, utility, and other monthly payments will be considered when reviewing a borrower's qualifications. Eligible bank borrowers must have incomes not exceeding 100% of the county median family income. The bank has actively extended loans in this program since the previous evaluation. The following chart shows the bank's participation in this loan program for 1997 and the first quarter of 1998.

<b>NEIGHBORHOOD HOME LOAN ORIGINATIONS</b>		
<b>Year of Origination</b>	<b>Number of Loans</b>	<b>Amount of Loans</b>
1997	55	\$3,027,277
1998	19	\$1,225,339

The bank also participates in several government-guaranteed loan programs that help meet the credit needs of particular borrowers. One program is the State VA Primary Mortgage Program, a low-interest program that provides home purchase, construction, and home improvement loans for Wisconsin veterans. The combined annual income of qualified applicants cannot exceed \$39,000. This loan program also has limited down payment requirements.

The bank is an active participant in WHEDA home purchase loans. Applicants obtaining loans under the WHEDA HOME first-time homebuyers program must provide a down payment of 3% to 5% and meet certain income eligibility guidelines. The bank will also recognize the increased property value of a residence that has benefited from a Community Development Block Grant ("CDBG") home improvement loan as a down payment. The CDBG loans are only available to low- and moderate-income borrowers. This flexible underwriting guideline is particularly important for low-income borrowers, who often find it difficult to accumulate the required down payment for a conventional loan.

The bank offers government-sponsored small business loan programs through SBA and WHEDA. In addition, the bank offers FSA-guaranteed and WHEDA CROP loans to small farmers. The purpose of the WHEDA CROP loan program is to provide loans to farmers who may have exhausted traditional sources of credit to purchase fertilizer, seed, or any other service or consumable good necessary to produce an agricultural commodity. The bank has made numerous WHEDA CROP loans since the previous evaluation. The bank continues to offer PECFA loans. These loans finance environmental cleanup projects throughout the assessment area.

The following chart illustrates the bank's involvement in government-guaranteed and -sponsored loan programs since the previous evaluation.

<b>GOVERNMENT-SPONSORED LOAN ORIGINATIONS</b>				
<b>Loan Program</b>	<b>1997</b>		<b>1998</b>	
	<b>Number of Loans</b>	<b>Amount of Loans</b>	<b>Number of Loans</b>	<b>Amount of Loans</b>
WHEDA HOME	10	\$455,198	3	\$155,990
Fed VA	5	\$401,030	-	-
State VA	10	\$865,487	6	\$512,786
PECFA	10	\$617,098	3	\$95,000
SBA	1	25,000	1	\$767,000
WHEDA CROP	28	\$355,700	4	\$56,000

## Conclusion

The bank's high satisfactory rating for the Lending Test is supported by the bank's strong overall lending levels. In addition, the bank has a substantial majority of its loans in its assessment areas. The loan data reported by the bank show that it is willing to extend loans throughout its three assessment areas, including in low- and moderate-income areas, as well as to people of different income levels and to

businesses of different sizes. Accordingly, the distribution of loans to geographies and people of different income levels and to businesses of different sizes is good. The bank has a good record of serving low-income people and small businesses and farms. Finally, the bank offers a wide variety of loan products with flexible underwriting criteria and some innovative products designed to meet the credit needs of low- and moderate-income borrowers, small businesses, and small farms.

### **Investment Test**

The bank's level of qualified community development investments is rated needs to improve. The bank has had limited qualified community development investment activity since the previous evaluation. The level of the bank's activity is considered less than adequate in view of the bank's capacity to invest and opportunities in the assessment areas and broader areas that include the assessment areas.

### **Investment and Grant Activity**

The bank does not own any qualified investments in its investment portfolio. Although the bank owns securities issued by government authorities in the assessment area, none is considered a qualified investment. According to bank management and community contacts, there has been little or no opportunity to purchase qualified investments since the previous evaluation. Bank management is continuing to seek out qualified investment opportunities.

The bank does have some limited grant activity. To date in 1998, the bank made \$8,950 in qualified grants. The majority of the grant activity is targeted to economic development activities. Community contacts identified the need for grants to programs providing down payment and closing cost assistance for low- and moderate-income individuals seeking to buy homes. Other opportunities identified include providing support for small business development through financial advice or start-up loan programs and supporting home buyer and credit repair education classes for low- and moderate-income people.

### **Conclusion**

Through its limited grants and contributions, the bank shows less than adequate responsiveness to the credit and community development needs of the assessment areas. Despite the low level of investments, community contacts did not identify any qualified investment in which the bank could participate. We encourage the bank to seek out innovative investment opportunities and to participate in broader statewide investment opportunities that will also benefit low- and moderate-income individuals and neighborhoods in the assessment areas.

### **Service Test**

The bank's level of services is rated high satisfactory. The bank's office locations, hours of operation, alternative delivery systems, and range of services are accessible and effective in delivering banking services to low- and moderate-income geographies and to low- and moderate-income individuals.

### **Retail Banking Services, Changes in Branch Locations, and Business Hours**

The bank has effective and comprehensive systems that deliver retail banking services to all residents and businesses in its assessment areas, including its residents with low or moderate incomes and its residents and businesses in low- or moderate-income areas. The bank is affiliated with 29 financial institutions in Wisconsin. The bank and its Wisconsin affiliates operate an interbank system that permits customers to make deposits, cash checks, and make loan payments through any affiliate office in the state. The bank has closed two of its full-service offices and the loan production office since the previous

evaluation. One of the full-service offices was located in a moderate-income geography. This office, which was located in East Ellsworth, was less than a mile from the bank's Ellsworth office, also located in a moderate-income geography. Given the proximity to the remaining Ellsworth office, this branch closing has not adversely affected the bank's customers. The other two offices that closed were located in middle-income geographies. Bank management followed the bank's branch closing policy and determined that the closures would not adversely affect low- and moderate-income residents of the assessment areas.

The bank's hours enable customers to have easy access to bank services. The hours appear appropriate given customer needs at individual branch locations. The bank offers Saturday office hours at most of its branch locations and has drive-up services at all but one branch location.

Since the previous evaluation, the bank has added two ATMs in the Eau Claire assessment area. The bank operates 12 ATMs in the combined assessment areas, seven of which offer full service. In December 1997, the bank discontinued charging an annual fee for its M&I Debit Cards and its M&I TYME ATM cards. These cards offer the bank's customers access to their deposit accounts nationwide.

To increase the availability of banking services to its customers, the bank has expanded its free Mi Line telephone banking service. Customers can now speak with a bank representative 24 hours a day. In addition to providing account information, bank representatives will also process new account applications and loan applications by telephone. This service is particularly helpful for individuals without transportation or whose work hours do not coincide with traditional banking hours. Customers may use the automated telephone service to transfer funds between accounts, verify account balances, and make account inquiries.

Each branch location offers all of the products previously described. The availability of telephone banking options enhances the delivery of services to low- and moderate-income geographies and individuals. In general, the bank has strong methods of delivering its services to all assessment area residents, including its low- and moderate-income individuals and residents of low- and moderate-income geographies.

### **Community Development Services**

Bank directors, officers, and staff provide adequate qualified community development services throughout the three assessment areas in which the bank operates. These services are detailed under the discussion of each of the three assessment areas. Contacts did identify additional services in which the bank could participate, including provision of financial education to low- and moderate-income people and technical advice to small businesses.

### **Conclusion**

The bank's branch locations, ATM locations, and alternative delivery systems are accessible to all sections of the bank's three assessment areas. Because its branch locations, business hours, deposit products, and alternative delivery systems do not vary in a way that inconveniences low- and moderate-income people and geographies, the bank's retail banking services are rated high satisfactory. The bank's adequate level of community development services is considered low satisfactory. Given the lack of identified unmet needs, the level of community development services does not significantly detract from the overall Service Test rating.

## **METROPOLITAN ASSESSMENT AREAS**

## **DESCRIPTION OF M&I COMMUNITY STATE BANK'S OPERATIONS IN THE EAU CLAIRE ASSESSMENT AREA**

The Eau Claire assessment area is defined as the Eau Claire MSA, which consists of Eau Claire and Chippewa counties, and the adjoining sections of northern Trempealeau and Clark counties. The assessment area had a total population of 159,494 as of the 1990 census. The Eau Claire MSA consists of 32 census tracts and had a population of 137,543 based on 1990 census data. It is located approximately 90 miles east of Minneapolis-St. Paul, Minnesota, in west-central Wisconsin. Twenty of the census tracts in the MSA are located in Eau Claire County, which includes the city of Eau Claire. According to updated 1997 population estimates from the State of Wisconsin, the city's population was 59,832. The remaining 12 tracts are located in Chippewa County, which includes the city of Chippewa Falls. According to the updated 1997 population data, Chippewa Falls' population was 13,054. The Eau Claire assessment area also includes two BNAs in the northern third of Trempealeau County and four BNAs in the northern half of Clark County. Other Eau Claire County towns and villages in this assessment area include Altoona, Augusta, Fall Creek, Lincoln, Pleasant Valley, Union, and Wilson. Chippewa County towns in the assessment area include Bloomer, Boyd, Cadott, Cornell and New Auburn. Trempealeau County towns in the assessment area include Strum and Elk Creek. Clark County towns in this assessment area include Thorp and Owen. Examiners contacted government officials familiar with housing issues and representatives familiar with economic development issues in conjunction with the examination. Information received from these individuals and from bank management was used to evaluate the bank's performance.

As previously stated, CRA divides income levels into four categories: low, moderate, middle and upper. Based on 1990 census data, the Eau Claire and statewide nonmetropolitan median family are \$31,613 and \$30,290, respectively. The income level of census tracts and BNAs are determined using these figures. According to updated 1998 updated census data, the Eau Claire MSA and statewide nonmetropolitan median family incomes are \$42,100 and \$41,800, respectively. These figures are used to classify income levels of borrowers.

As mentioned previously, the Eau Claire assessment area is defined as 32 census tracts in Eau Claire and Chippewa counties and six BNAs in Clark and Trempealeau counties. Based on 1990 census data, there is one low-income tract in the assessment area. As discussed earlier, this tract, which does not contain any households or families, has a population of 500, less than 1% of the assessment area's total population. The tract is located in Chippewa County just outside the Chippewa Falls central business district, and it is adjacent to the city's industrial park. There are five moderate-income geographies in this assessment area. Two of the census tracts are located the city of Eau Claire. One of these tracts is the downtown business district; there are less than 100 owner-occupied households in this tract. The other tract is located in an older part of the city. This tract has approximately 2,300 households, but less than half of the households own their homes. The remaining moderate tracts are in largely rural areas of the assessment area. These tracts are located in Clark, Chippewa, and Eau Claire counties. According to 1990 census data, the total population in the moderate-income geographies is 19,952, approximately 13% of the assessment area population. In addition, census data show that approximately 8,247, or 13%, of the housing units, are located in the moderate-income census tracts. The data show that 58% of the units are owner-occupied, 32% are rental units, and the remaining 10% of the housing units are vacant. Of the owner-occupied units in the assessment area, less than 12% are in the moderate-income geographies.

Middle-income geographies constitute the largest percentage of the Eau Claire assessment area. According to 1990 census data, the 26 middle-income tracts have a total population of 114,827, which is 72% of the assessment area population. Census data for 1990 show that approximately 45,604, or 73% of the assessment area's housing units, are located in the middle-income tracts. In these tracts, 67% of the housing units are owner occupied, 27% are rental units, and the remaining 6% are vacant.



The remaining Eau Claire assessment area geographies are classified as upper income. The upper-income tracts have a total population of 24,215, or 15% of the assessment area's population. In addition, census data show that approximately 8,484, or 14% of the housing units in the assessment area, are located in the upper-income tracts. In the upper-income tracts, 59% of the housing units are owner occupied, 38% are rental units, and the remainder are vacant. The relatively high number of rental units in the upper-income tracts corresponds to the presence of the University of Wisconsin-Eau Claire campus in census tract 10.00. In this tract, only 40% of the households are owner occupied.

According to the 1990 census data, the Eau Claire assessment area's median family income is \$30,890. The median household income for the assessment area is \$25,362. There are approximately 40,860 families and 58,484 households within the assessment area. Approximately 9% of the families and 13% of the households have income below the poverty level. The percentages of such families and households in the assessment are equal to the percentages for the Eau Claire MSA and are slightly higher than the nonmetropolitan statewide percentages of 8% and 11%, respectively. The distribution of family and household income for the assessment area is summarized below in the table.

<b>EAU CLAIRE ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL</b>								
	Low Income		Moderate Income		Middle Income		Upper Income	
	#	%	#	%	#	%	#	%
Families compared to median family income	7,824	19	7,682	19	10,491	26	14,863	36
Households compared to median household income	14,038	24	9,777	17	11,748	20	22,921	39

Moderate-income borrowers have incomes below \$33,680. As of 1990 census data, 19,984 homes in the assessment area, 69% of the total number of owner-occupied units, were valued at less than \$60,000. The median housing value was \$48,410, meaning housing is relatively affordable in the assessment area. However, rents are also low, with the median rent being only \$338.

Community contacts and bank management indicated that the overall economic conditions for the Eau Claire assessment area were strong. The area enjoys a widely diversified economy. According to updated 1996 census data, the unemployment rate for the MSA was 3.7%. Major employers in the area include the University of Wisconsin-Eau Claire; Silicon Graphics; Hutchinson Technology, Inc.; Johnson Mathey; and Mason Shoe Manufacturing Co. Agriculture continues to be a significant economic factor in the outlying areas of the assessment area. Dairy farming is the primary industry. This sector is in decline as farmers are having an increasingly difficult time maintaining their operations as a result of low market prices. Many rural communities in the assessment area are becoming bedroom communities for Eau Claire and Chippewa Falls. In addition, many main street retailers in these communities have gone out of business because of their competition in Eau Claire.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS—EAU CLAIRE ASSESSMENT AREA**

### **Lending Test**

The Bank's lending performance as evaluated under the Lending Test in the Eau Claire assessment area is rated high satisfactory. The bank's strong net loan-to-deposit ratio shows a good responsiveness to community credit needs. Based on loan data collected in 1997, the bank's lending activity shows good penetration of the moderate-income areas in this assessment area. In addition, the bank has a good record of serving borrowers of varying incomes, as well as businesses and farms of different sizes. As indicated in the overall bank discussion, the bank does not have any qualified community development lending activity, but makes good use of flexible and innovative underwriting standards.

### **Lending Activity**

The bank is an active lender in this assessment area. Based on financial data provided by bank management, the bank's loan-to-deposit ratio for this assessment area is comparable to the bank's overall net loan-to-deposit ratio. As noted in the Description of Institution section, the majority of the bank's lending activity occurs in this assessment area. The bank operates seven full-service offices and seven ATMs throughout the assessment area.

The bank's strong lending activity is also noted by the increase in HMDA-reported loans for 1997. In 1996, the bank reported 370 loans that were originated in the MSA. In 1997, the bank reported 415 loans. The bank originated 37% of the small business loans and 94% of the small farm loans that were originated by institutions that are required to report small business and small farm loans for CRA in the Eau Claire MSA in 1996. Aggregate data for 1997 is not available. Banking competition is strong in this MSA, and there are several financial institutions that are required to report CRA data.

Based on the strong loan-to-deposit ratio in the Eau Claire assessment area as well as the bank's lending activity as compared with other financial institutions in the area, the level of lending activity reflects good responsiveness to community credit needs.

### **Assessment Area Concentrations**

As discussed on page 9, the bank makes a substantial majority of its loans within its three assessment areas. Analysis of the bank's HMDA data provides limited insight into the bank's lending activity within the Eau Claire assessment area. Because the assessment area includes portions of Clark County and Trempealeau County, which are outside of the MSA boundaries, the HMDA data does not give an accurate account of the concentration of the reported loans in the assessment area. The HMDA reports only count loans that are originated within the MSA boundaries.

### **Geographic Distribution of Loans**

The geographic distribution of the bank's loans is good based on the very good penetration of commercial and farm lending in moderate-income geographies, as well as the reasonable penetration of real estate lending in these tracts.

As previously discussed, the Eau Claire assessment area consists of 38 census tracts and BNAs in Chippewa, Clark, Eau Claire, and Trempealeau counties. The majority of the geographies are classified as middle income. The following table shows the distribution of the assessment area's population by geographic classification.

<b>DISTRIBUTION OF GEOGRAPHIES AND POPULATION BY INCOME LEVEL</b>				
	<b>Low Income</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>
Number of geographies	1	5	26	6
Percent of total geographies	3	13	68	16
Population	500	19,952	114,827	24,215
Percent of total population	.3	12.5	72	15.2
Percent of owner-occupied units	0	11.8	75.7	12.5

The following table shows the distribution of the bank's loans by geography. As discussed earlier, because of the nature of the low-income tract, it is not unreasonable for the bank to report no activity in this tract. Therefore, it is not listed in the table.

<b>DISTRIBUTION OF LOANS IN THE EAU CLAIRE ASSESSMENT AREA BY INCOME LEVEL OF GEOGRAPHY</b>						
Loan Type	Moderate Income		Middle Income		Upper Income	
	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Home Improvement	15%	27%	72%	58%	13%	16%
Home Purchase	7%	7%	78%	74%	15%	19%
Multifamily	11%	7%	33%	18%	56%	75%
Refinancing	8%	5%	80%	79%	13%	15%
Small Business	7%	8%	77%	71%	15%	21%
Small Farm	16%	15%	69%	74%	14%	11%

A tract-by-tract analysis reveals that the bank is lending in each of the moderate-income tracts. Three of the five tracts are located in rural portions of the assessment area (1.00, 109, and 9502). Therefore, there is a higher level of small farm lending in the moderate-income tracts. The remaining two tracts, 6.00 and 11.00, include the downtown business center of Eau Claire. There are fewer opportunities for residential real estate lending in these tracts. According to 1990 census data, census tract 6.00 has 2,356 households, 1,088 of which are owner-occupied. This tract has many older, smaller homes that were constructed close to the former Uniroyal tire plant. For many years, this was one of Eau Claire's major employers. In census tract 11, there are just 433 households, only 43 of which are owner occupied. This tract is very small geographically and includes the majority of downtown Eau Claire. In addition, it is adjacent to the University of Wisconsin-Eau Claire campus and has a large student population. Since the previous evaluation, the bank has increased its lending in moderate-income tracts for home improvement, multifamily, and small farm lending. The levels for the remaining loan categories remained the same except for a decrease in small business lending.

The bank's 1997 HMDA data also provide some insight about the bank's performance compared with that of its competitors. The bank made 8% of its reported loans in moderate-income tracts in the Eau Claire MSA. While the aggregate figures are not yet available, the bank's level of lending is consistent when compared with the other leading lenders in the assessment area. The three most active lenders in the assessment area had levels of lending in the moderate-income tracts that ranged from 7.3% to 7.9%.

The 1996 aggregate data for small business and small farm lending also indicates that the bank's level of lending to moderate-income tracts is favorable to that of its competitors. The data reveal that the aggregate lenders made 13% of the small business loans and 12% of the small farm loans in the moderate-income geographies in the assessment area. The bank's 1996 level of lending in moderate-income tracts was 9% for small business loans and 13% for small farm loans. Bank management indicated that the competition among financial institutions for small business lending is strong. In addition, in Eau Claire, many of the larger financial institutions have offices in the central business district, a moderate-income tract. Given the strong market, the bank's level of lending is not unreasonable.

The bank's distribution and dispersion of loans in geographies of different income levels is good. Loans are distributed throughout the bank's assessment area. In addition, the distribution of loans between tracts of various income levels is generally consistent with the distribution of tracts, population, and owner-occupied housing units within tracts of varying income levels. Finally, the bank's lending in moderate-income tracts approximates the level of lending in these tracts by the bank's competitors. In general, the evaluation did not identify any unexplained gaps in lending.

### Borrowers' Profiles

Overall, the bank's level of lending to borrowers of different incomes and to businesses and farms of different sizes is reasonable and reflects adequate penetration in the assessment area.

As previously discussed, CRA classifies income levels into four categories: low, moderate, middle and upper. For purposes of classifying the bank's borrowers, the 1998 Eau Claire MSA's median family income of \$42,100 and the Wisconsin nonmetropolitan median family income of \$41,800 were used.

The following table shows the percentage of home improvement, home purchase, and residential real estate refinancing loans made to borrowers of different income levels.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*</b>								
Loan Type	Low Income		Moderate Income		Middle Income		Upper Income	
	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Home Improvement	10%	9%	25%	22%	25%	19%	40%	50%
Home Purchase	6%	3%	24%	17%	26%	20%	44%	60%
Refinancing	6%	3%	18%	11%	32%	25%	44%	61%
*Income level is determined using the 1998 Eau Claire MSA median family income of \$42,100 and the 1998 Wisconsin nonmetropolitan median family income of \$41,800.								

The chart above shows that the bank made approximately one-third of its home improvement and home purchase loans to low- and moderate-income borrowers. As discussed earlier, approximately 38% of the families and 41% of the households in the assessment area are classified as low or moderate income. Specifically, 19% of the families are considered low income and 19% are moderate income. Several factors support the reasonableness of the bank's real estate lending patterns.

First, the bank's lending to moderate-income borrowers exceeds the representation of these borrowers in the assessment area. The relative affordability of housing in the assessment area coupled with the bank's active use of government and proprietary loan programs designed to assist moderate-income home purchasers are in part responsible for this performance. Lending to low-income borrowers is reasonable as discussed in the next section of the evaluation.

Second, the bank compares favorably with the other leading lenders in the MSA in its level of HMDA loans to low- and moderate-income borrowers. In 1997, the bank made 27% of its HMDA-reportable loans to low- and moderate-income borrowers, while the leading lender in the MSA made 20% of its HMDA-reportable loans to low- and moderate-income borrowers. The other two leading lenders made 35% and 30% of their HMDA-reportable loans to low- and moderate-income borrowers, respectively. The bank and the leading lender in the MSA reported more loans in 1997 than in 1996. The other leading lenders had slightly decreased levels of activity in 1997. The bank attributes its increased lending to the success of its NHLP program. This proprietary loan program with low down payment requirements is designed for low- and moderate-income borrowers.

The bank has a reasonable distribution of small business and small farm loans to businesses and farms of different sizes. The bank makes the majority of its small business and small farm loans to entities with gross annual revenues of \$1 million or less. Based on the data reported by the bank for loans originated in 1997, the bank made 74% of its small business loans to businesses with gross annual revenues of \$1 million or less. For small farm loans, the bank made 98% of the loans in this category to farms with gross annual revenues of \$1 million or less. This level of lending to small businesses and small farms is favorable when compared with level of lending reported by the aggregate for 1996. In 1996, the aggregate lenders in the assessment area originated 57% of the small business loans and 99% of the small farm loans to entities with \$1 million or less in gross annual revenue. For the same time period, the bank originated 91% of its small business loans and 99% of its small farm loans to such entities.

A significant majority of the bank's small business and small farm loans were written for amounts of \$100,000 or less. The following table shows the distribution of the bank's lending activity to entities with gross annual revenues of \$1 million or less by loan size.

<b>DISTRIBUTION OF SMALL BUSINESS AND SMALL FARM LOANS BY LOAN SIZE</b>			
Loan Type	Loan Amount \$100,000 or less	Loan Amount \$100,000.01 to \$250,000	Loan Amount \$250,000.01 to \$1 million
Small Business	83%	12%	5%
Small Farm	91%	8%	1%

The bank's level of lending to borrowers of different income levels and businesses and farms of different sizes is good. The bank's level of residential real estate lending to low- and moderate-income borrowers compares favorably with the other leading lenders in the MSA. Use of the bank's NHLP loan program has increased the bank's level of home purchase lending to moderate-income borrowers. The bank's level of lending to small businesses and small farms is also favorable when compared with the aggregate lending activity in the assessment area.

### **Record of Serving Highly Economically Disadvantaged Areas, Low-Income People, and Small Businesses**

The bank's record of serving low-income people and small businesses is good. The bank's assessment area contains no segments that can be considered highly economically disadvantaged. The bank's level of lending to low-income borrowers is favorable when compared with the aggregate level of lending in the assessment area. In 1997, the bank made 7% of its HMDA-reportable loans to low-income borrowers. In 1996, aggregate lenders made 7.3% of HMDA loans to low-income borrowers. Low-income borrowers have incomes below \$21,400. Borrowers with this level of income and no other debt could afford a house payment, including principal, interest, taxes, and insurance, of \$535. The assessment area's median rent is \$338, and there is a large supply of rental homes with monthly rents less than \$535. Moreover, the assessment area's housing stock is fairly old, indicating maintenance costs could be significant. In light

of these factors, rental housing appears to be an attractive alternative to homeownership for low-income families.

The bank has a good level of lending to small businesses and small farms. A significant portion of the bank's loans is for amounts less than \$100M. In particular, of the loans to small businesses, 83% of the number and 39% of the dollar amount were for less than \$100M. For small farms, these figures were 91% and 65%, respectively. This level of lending also compares favorably with the level of lending by the aggregate lenders in the assessment area. As previously mentioned, the bank is actively involved in several loan programs that help lower-income individuals obtain homes. The programs include the NHLP and WHEDA first-time homebuyer loan programs.

### **Community Development Lending Activities**

The bank did not report any community development loans as part of its 1997 CRA data reporting obligations. Since the previous evaluation, the bank has made a number of loans that serve economic development purposes. However, such loans are generally classified as small business or HMDA loans pursuant to CRA's definitions. Some of these loans involved bank participation in several area economic development loan pools, including the Eau Claire Industrial Development Corporation and the Chippewa Falls Industrial Development Corporation. In addition, the bank provided \$1.3 million in construction and long-term financing for an assisted-living center that serves low- and moderate-income residents. The bank also provided \$400M in financing to renovate another community-based residential facility geared toward low- and moderate-income residents. It is generally expected that the residents of this complex will be low and moderate income. According to community contacts and bank management, there have been few opportunities for the bank to finance qualified community development projects since the previous evaluation.

### **Product Innovation and Flexibility**

The bank has flexible lending standards and participates in several special loan programs on a bankwide basis to facilitate loan originations in its three assessment areas. The bank and its Wisconsin affiliates offer many of the same loan programs. These special loan programs are discussed in detail in the overall bank discussion on page 12. The bank's participation in these programs, in particular the proprietary NHLP program, significantly enhances its ability to meet credit needs of low- and moderate-income borrowers.

### **Investment Test**

The bank's performance under the Investment Test in the Eau Claire assessment area is rated needs to improve. As discussed previously under the bank's overall Investment Test section, the bank does not own any investments that qualify as community development investments under CRA. According to bank management, there have been few opportunities to purchase such investments in the past few years. A limited number of the donations provided by the bank are to organizations that provide services to low- and moderate-income individuals in the Eau Claire assessment area and qualify under revised CRA. The bank has not engaged in any complex or innovative investment activities.

Although the bank owns securities issued by government units in the assessment area, none is a qualified investment. The bank also donates to organizations that provide community development services in the assessment area. The bank's qualified grant activities in the Eau Claire assessment area include donations to the Eau Claire Industrial Development Corporation and Habitat for Humanity. Since the previous evaluation, the bank has made \$6,350 in donations. None of the grants is particularly innovative or complex, and they show limited responsiveness to the credit and community development needs of the

assessment area residents.

### **Service Test**

The bank's performance under the Service Test in the Eau Claire assessment area is rated high satisfactory. The bank's main office and Eau Claire assessment area branch locations, hours of operation, and alternative delivery systems provide convenient customer access to the bank's products and services.

### **Retail Banking Services, Changes in Branch Locations, and Business Hours**

The bank has an effective and comprehensive system that delivers retail banking services to all residents and businesses in its assessment area, including residents with low- or moderate-incomes and residents and businesses in low- or moderate-income areas. The bank operates seven full-service branches, a detached paying and receiving facility, and seven ATMs in this assessment area. Only one of the assessment area's offices is located in a low- or moderate-income geography. However, the other offices are accessible to the residents of remaining moderate-income areas.

Since the previous evaluation, the bank has closed its full-service office in Altoona. This branch office was located in a middle-income census tract. The bank's Highway 93 office has been able to accommodate the customers that were previously served at the Altoona office. Bank management indicated that it is still looking for potential office locations in the Altoona area.

To accommodate the needs of local residents and businesses, the bank has established office hours that are appropriate for the community. Many of the office locations have Saturday hours not only at the drive-up facilities but in the lobbies as well. Since the previous evaluation, the bank has expanded its 24-hour automated telephone banking system to include 24-hour customer service access to bank representatives. This service is particularly useful for individuals whose schedules do not coincide with traditional banking hours of service.

### **Community Development Services**

According to community contacts, the bank is very supportive of activities that promote the economic and social health of the community; however, many of these activities do not qualify as community development services. The bank's directors, officers, and staff perform some qualified community development services within the Eau Claire assessment area, the bulk of which relate to supporting the economic development of the assessment area by attracting new businesses to the area. These services include the following:

- The bank's president and chief executive officer is chairman of the Eau Claire Industrial Development Corporation and a director of Momentum Chippewa Valley,
- A bank vice president serves on the board of the Western Wisconsin Development Corporation,
- The bank has conducted homebuyer education seminars targeted to low- and moderate-income borrowers in this assessment area, and
- The bank provides Hmong language brochures for WHEDA loan programs in the bank's main office. WHEDA loan programs are generally targeted to low- and moderate-income borrowers.

The bank's level of community development services is adequate given the opportunities in the Eau

Claire assessment area. The services noted above are responsive to the needs identified by community contacts.

### **Conclusion**

Based on the criteria outlined above, the bank's CRA performance in the Eau Claire assessment area is rated high satisfactory. Performance under the Lending Test is considered high satisfactory based on good responsiveness to credit needs, substantial lending within the assessment area, good distribution of loans among geographies of different income levels, and good distribution of loans among borrowers of different income levels and businesses and farms of different sizes. In addition, the bank's good use of flexible loan products and underwriting standards increases the availability of credit to low- and moderate-income individuals. Performance under the Investment Test is considered needs to improve based on the limited qualified investment activity in the assessment area. Finally, the bank's performance under the Service Test is considered high satisfactory based on the accessibility of services and the good use of alternative delivery systems.

### **DESCRIPTION OF M&I COMMUNITY STATE BANK'S OPERATIONS IN THE PRESCOTT/ RIVER FALLS/ELLSWORTH, WISCONSIN, ASSESSMENT AREA**

The Prescott/River Falls/Ellsworth assessment area is located on the Minnesota-Wisconsin border. It is composed of Pierce County and a portion of St. Croix County. These two counties are contained in the Minneapolis-St. Paul MSA, which comprises 13 counties in Minnesota and Wisconsin. The bank has no offices in the Minnesota portion of the MSA. The bank has three branch offices in this assessment area; they are in Prescott, River Falls, and Ellsworth.

This assessment area has a population of 49,657 based on 1990 census data. There are 11 geographies in this assessment area: three census tracts in the southern section of St. Croix County and eight BNAs that make up Pierce County. The major communities in the assessment area include Baldwin, Ellsworth, Prescott, and River Falls. Prescott and River Falls are both located in Pierce County. These communities have experienced tremendous growth in the past few years. Many people from the Minneapolis-St. Paul area have moved across the border in pursuit of a more rural home setting; this area had been less developed than other areas of the metropolis. Businesses have also moved into the area to take advantage of the lower costs of doing business in Wisconsin. Updated 1997 population data for the two counties show the level of growth since the 1990 census. In 1990, the population of Pierce County was 32,765; the updated 1997 figure is 34,199, an increase of 4.4%. For St. Croix County, the 1990 population was 50,251; the updated 1997 figure is 55,829, an increase of 11%.

Government officials familiar with housing needs and economic development were contacted in conjunction with the evaluation. Information received from these individuals and bank management was used in evaluating the bank's performance in this assessment area.

According to the community contacts, the economy in the assessment area is strong and unemployment is low. Economic conditions are varied, however. Those who live in the eastern sections of the assessment area are not faring as well as those that live in the west, along the Minnesota-Wisconsin border. Many of the individuals who live along the border and close to Interstate Highway 94 commute to jobs in the Twin Cities. Wages in Minnesota are generally higher than in Wisconsin. The extremely low unemployment rates also contribute to wage escalation, particularly for skilled workers. There are several large



employers that are located in Minnesota. In the eastern sections of the assessment area, most residents live beyond reasonable commuting distance to the Twin Cities. This area is still largely rural and contains small communities such as Glenwood City and Woodville, Wisconsin.

As previously stated, CRA divides income levels into four categories: low, moderate, middle and upper. Based on 1990 census data, the Minneapolis-St. Paul MSA median family is \$43,063. The income level of census tracts and BNAs are determined using this figure. According to updated 1998 census data, the Minneapolis-St. Paul MSA median family income is \$60,800. This figure is used to classify income levels of borrowers.

As mentioned, the Prescott/River Falls/Ellsworth assessment area contains 11 geographies in two counties. The assessment area does not have any geographies that are classified low or upper income. Five of the geographies are classified as moderate income, while six geographies are classified as middle income. For HMDA purposes, Pierce County is considered untracked and all HMDA data are reported under one middle-income geography. The moderate-income geographies, which consist of two census tracts in St. Croix County and three BNAs in Pierce County, have a combined population of 19,683, according to 1990 census data. These tracts represent 45% of the geographies and approximately 40% of the assessment area's population. The bank's Ellsworth office is located in BNA 9607 in Pierce County. In addition, census data show that approximately 7,358, or 41% of the housing units, are located in the moderate-income geographies. These geographies contain 43% of the owner-occupied housing units in the assessment area. The data show that 72% of the units are owner-occupied, 23% are rental units, and the remaining 5% of the housing units are vacant.

Housing in the assessment area is less affordable than for the bank's overall assessment areas. Median rent in this assessment area is \$393 and the median housing value is \$66,954. In this assessment area, 39.2% of housing units are valued at less than \$60,000, compared with nearly 70% in the Eau Claire assessment area. The relatively higher cost of housing in this assessment area reflects the influence of the Twin Cities metropolitan area. Given the expanding metropolitan area influence, contacts indicate housing costs have increased substantially in some parts of this assessment area since 1990.

The middle-income geographies, which include one census tract in St. Croix County and five BNAs in Pierce County, have a combined population of 29,974. The bank's Prescott office is located in BNA 9605, and the River Falls office is located in BNA 9603. In the middle-income geographies, 67% of the 10,382 housing units are owner-occupied. Rental units make up 28%, and the remaining 4% of the housing units are considered vacant.

According to the 1990 census data, the Prescott/River Falls/Ellsworth assessment area's median family income is \$36,328. The median household income for the assessment area is \$31,269. There are approximately 12,600 families and 17,017 households within the assessment area. Approximately 6% of the families and 10% of the households have incomes below the poverty level. The percentages of such families and households in the assessment are below the percentages for the Eau Claire MSA and are lower than the nonmetropolitan statewide percentages of 8% and 11%, respectively. The distribution of family and household income for the assessment area is summarized in the following table.

<b>PRESCOTT/RIVER FALLS/ELLSWORTH ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL</b>								
	Low Income		Moderate Income		Middle Income		Upper Income	
	#	%	#	%	#	%	#	%
Families compared to median family income	2,892	23	2,950	23	3,505	28	3,253	26
Households compared to median household income	4,510	27	3,315	19	4,110	24	5,082	30

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS—PRESCOTT/RIVER FALLS/ELLSWORTH ASSESSMENT AREA**

### **Lending Test**

The bank's performance under the Lending Test in the Prescott/River Falls/Ellsworth assessment area is good and is rated high satisfactory. While the bank's loan-to-deposit ratio in this assessment area is below that of the bank overall, its lending activity has remained steady since the previous evaluation. In addition, the geographic distribution of loans in the assessment area reflects excellent penetration of the moderate-income geographies. The distribution of the bank's reported loans to borrowers of different income levels and businesses of different sizes is good. The bank has an excellent record of serving low-income borrowers and small businesses in the assessment area. While the bank did not have any reported community development loans, it makes good use of flexible lending programs in the assessment area.

### **Lending Activity**

Based on financial data provided by bank management, the bank's net loan-to-deposit ratio for the three offices in this assessment area is significantly lower than the bank's overall net loan-to-deposit ratio. The level of lending activity is also below that of the bank's competitors in the assessment area.

The bank is, however, the third most active lender for HMDA-reported loans in the assessment area. The bank's lending activity for home purchase and residential refinancing increased approximately 16% from 1996 to 1997. The bank's level of HMDA lending in the assessment area represents good responsiveness to community credit needs. As will be discussed in detail, the bank's level of lending to low- and moderate-income borrowers in the assessment area is particularly noteworthy.

The aggregate data for institutions required to report small business and small farm loan activity also indicates that the bank is an active lender.

Overall, despite the bank's lower net loan-to-deposit ratio in this assessment area, the bank's lending activity in this assessment area reflects good responsiveness to community credit needs.

### **Assessment Area Concentrations**

As discussed on page 9, the bank makes a significant majority of its loans within its three assessment areas. Analysis of the bank's HMDA data provides limited insight into the bank's lending activity in the assessment area because the bank does not include the whole MSA in its assessment area. In addition, the bank's other assessment areas may include many of its loans outside the MSA.

## Geographic Distribution of Loans

Overall, the geographic distribution of the bank's loans reflects excellent penetration throughout the Prescott/River Falls/Ellsworth assessment area. As previously discussed, the assessment area includes three census tracts in the southeastern section of St. Croix County and eight BNAs that comprise Pierce County. Five geographies representing 45% of the total geographies and including 40% of the population are classified as moderate income. The remaining geographies are classified as middle income. There are no low- or upper-income geographies in the assessment area.

The following table shows the distribution of the bank's loans by geography in the assessment area.

<b>DISTRIBUTION OF LOANS IN THE PRESCOTT/RIVER FALLS/ELLSWORTH ASSESSMENT AREA BY INCOME LEVEL OF GEOGRAPHY</b>				
	Moderate Income		Middle Income	
Loan Type	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Home Improvement	35%	55%	65%	45%
Home Purchase	46%	42%	54%	58%
Multifamily	100%	100%	0%	0%
Residential Refinance	43%	36%	57%	64%
Small Business	41%	39%	59%	61%
Small Farm	66%	59%	34%	41%

A tract-by-tract analysis reveals that the bank is lending in each of the moderate-income geographies in the assessment area. The majority of the lending in the moderate-income tracts occurs in BNA 9607, where the bank's Ellsworth office is located. The remaining moderate-income geographies are located some distance from any of the bank's offices, and there are other financial institutions that would be more convenient to area individuals. The bank's high level of home purchase loans in the moderate-income tracts is particularly noteworthy. According to the 1990 census data, 40% of the population and 43% of the owner-occupied housing is located in the moderate-income tracts. The bank's multifamily lending is not particularly meaningful because the bank originated only one multifamily loan in the assessment area.

A comparison of the bank's HMDA lending in the moderate-income tracts would not be meaningful. As previously stated, for HMDA purposes, Pierce County is considered one middle-income tract rather than three moderate-income and five middle-income geographies. Accordingly, HMDA data significantly underreports lending in moderate-income geographies.

The 1996 aggregate data for small business and small farm lending also indicates that the bank's level of lending to moderate-income tracts is favorable relative to that of its competitors. The data reveal that the aggregate lenders made 41% of the small business loans and 79% of the small farm loans in the moderate-income geographies in the assessment area. The bank's level of lending in moderate-income tracts for 1996 was 56% for small business loans and 71% for small farm loans.

Overall, based on the bank's 1997 CRA loan-origination report, the bank's residential real estate and commercial loan originations in the assessment area's moderate-income geographies reflect excellent penetration of geographies of varying income levels.

## Borrowers Profiles

The bank's level of lending to borrowers of different income levels and to businesses and farms of different sizes is good. For home purchase lending in particular, the bank's level of lending reflects excellent penetration of low- and moderate-income borrowers.

As previously discussed, CRA classifies income levels into four categories: low, moderate, middle, and upper. For purposes of classifying the bank's borrowers, the 1998 Minneapolis-St. Paul MSA's median family income of \$60,800 is compared to borrower's incomes.

The following table shows the percentages of home improvement, home purchase and residential real estate refinancing loans made to borrowers of different income levels.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*</b>								
	Low Income		Moderate Income		Middle Income		Upper Income	
Loan Type	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Home Improvement	15%	15%	54%	27%	12%	14%	19%	44%
Home Purchase	9%	6%	46%	36%	36%	40%	9%	18%
Refinancing	15%	8%	22%	16%	32%	32%	31%	44%
*Income level is determined using the 1998 Minneapolis-St. Paul MSA median family income of \$60,800.								

The data in the table indicate that the bank made more than two-thirds of its home improvement loans and more than half of its home purchase loans to low- and moderate-income borrowers. As discussed earlier, approximately 46% of the families and households in the assessment area are classified as low and moderate income. Specifically, 23% of the families and 27% of the households are considered low income. Lending to moderate-income borrowers substantially exceeds the percentage of such families in the assessment area. Although lending to low-income borrowers is below the representation of these borrowers in the assessment area, the relatively high cost of housing in the assessment area largely explains this performance.

A review of the 1997 HMDA data for the leading lenders in the assessment area also indicate that the bank has an excellent record of lending to low- and moderate-income borrowers. In 1997, the bank made 50% of its HMDA-reportable loans to low- and moderate-income borrowers, while the leading lender in the assessment area made 31% of its HMDA-reportable loans to low- and moderate-income borrowers. The other two leading lenders made 30% and 41% of their HMDA-reportable loans to low- and moderate-income borrowers, respectively.

The bank and the leading lender in the assessment area each reported slightly fewer loans in 1997 than in 1996. The bank, however, did increase its volume of home purchase loans in 1997. The bank attributes its increased lending to the success of its NHLP program. This proprietary loan program is designed for low- and moderate-income borrowers with low down payment requirements.

The bank has made a good distribution of its small business and small farm loans to businesses and farms of different sizes. The bank makes the majority of its small business and small farm loans to entities with gross annual revenues of \$1 million or less. Based on the data reported by the bank for loans originated in 1997, the bank made 80% of its small business loans and 97% of its small farm loans to entities with gross annual revenues of \$1 million or less. This level of lending to small businesses and small farms is

favorable when compared with the level of lending reported by the aggregate for 1996. In 1996, the aggregate lenders in the assessment area originated 92% of the small business loans and 98% of the small farm loans to entities with \$1 million or less in gross annual revenues.

A significant majority of the bank's small business and small farm loans were written for amounts of \$100,000 or less. The following table shows the distribution of the bank's lending activity to entities with gross annual revenues of \$1 million or less by loan size.

<b>DISTRIBUTION OF SMALL BUSINESS AND SMALL FARM LOANS BY LOAN SIZE</b>			
<b>Loan Type</b>	<b>Loan Amount \$100,000 or less</b>	<b>Loan Amount \$100,000.01 to \$250,000</b>	<b>Loan Amount \$250,000.01 to \$1 million</b>
<b>Small Business</b>	89%	9%	2%
<b>Small Farm</b>	93%	7%	0%

The bank's level of lending to borrowers of different income levels and businesses and farms of different sizes is good. The bank's level of residential real estate lending to low- and moderate-income borrowers exceeds the level of the other leading lenders in the assessment area and the representation of these borrowers in the assessment area. Use of the bank's NHLP loan program has increased the bank's level of home purchase lending to moderate-income borrowers. The bank's level of lending to small businesses and small farms is also favorable when compared with the aggregate lending activity in the assessment area.

#### **Record of Serving Highly Economically Disadvantaged Areas, Low-Income People, and Small Business**

The bank has a very good record of serving low-income people in this assessment area and an excellent record of serving small businesses. The assessment area does not include any highly economically disadvantaged areas. As noted previously, the bank offers several home loan products geared toward low- and moderate-income homeowners. In addition, 15% of its home improvement and 9% of its home purchase loans were made to low-income borrowers. In light of the increasing cost of homes in the assessment area, this level of service is very good. In addition, nearly all of the commercial and agricultural loans are to small businesses and small farms. The bank offers a number of loan programs targeted to small businesses. Accordingly, the bank's record of serving low-income people and small businesses in this assessment area is excellent.

#### **Community Development Lending Activities**

As previously discussed, the bank did not report any community development loans for 1997. Since the previous evaluation the bank has made a number of loans that serve community development purposes. Such loans, however, are generally classified as HMDA or small business loans according to CRA's definitions. Some of these loans involved participation in the River Falls Revolving Loan Fund for Business Improvement and Development. According to community contacts and bank management, there have been few opportunities for the bank to finance qualified community development projects since the previous evaluation.

## **Product Innovation and Flexibility**

The bank has flexible lending standards and participates in special loan programs on a bankwide basis that increase the accessibility of credit to low- and moderate-income borrowers and to small businesses and farms. The bank is active in providing start-up funds to small business under the auspices of the Small Business Administration loan programs. Details on many of the loan programs are provided on page 12 of this evaluation.

## **Investment Test**

The bank's performance under the Investment Test in the Prescott/River Falls/Ellsworth assessment area is rated needs to improve. As discussed previously under the bank's overall Investment Test section, the bank does not own any investments that qualify as community development investments under CRA. According to bank management, there have been few opportunities to purchase such investments since the previous evaluation. The bank does own several municipal bonds issued by communities in the assessment area; however, the purpose of the bond issue does not meet the strict definition of qualified investment outlined in the regulation. Some of the donations provided by the bank to organizations in this assessment area do not meet the qualification definition but do stimulate job growth in the assessment area. Wages from the jobs created by these donations would be classified as low- to moderate-income. None of the grants are particularly innovative or complex, however. While the level of the bank's activity is low, community contacts stated that bank management is involved in the assessment area. The contacts also concurred that there have been few qualified investment opportunities in the assessment area. The lack of qualified investments, particularly grants and donations in this assessment area, reflects a less than adequate response to community development investment opportunities.

## **Service Test**

The rating of the bank under the Service Test for the Prescott/River Falls/Ellsworth assessment area is high satisfactory. The bank's assessment area branch locations, hours of operation, and alternative delivery systems are readily accessible to all segments of the community. The delivery of the bank's retail services does not vary in a way that inconveniences low- and moderate-income people or areas. The closing of the branch office in East Ellsworth has not adversely affected accessibility of services. Finally, the bank participates in community development services.

## **Retail Banking Services, Changes in Branch Locations, and Appropriateness of Service**

As is the case with the other assessment areas, the bank operates an extensive product delivery system to provide ready access of its various products and services to residents and businesses of this assessment area. The bank operates three full-service offices in this assessment area, one each in Prescott, River Falls, and Ellsworth. The bank also operates two ATMs, one each in Prescott and River Falls.

In August 1997, the bank closed its East Ellsworth branch office. This office, in a moderate-income BNA, was located less than a mile from the Ellsworth branch office, also located in the moderate-income BNA. Prior to closing the office, bank management determined that the branch closing would not adversely affect the residents of the area. Community contacts stated the office closing had not adversely affected accessibility to banking services for area residents. Lending activity in the assessment area, particularly residential real estate lending, is concentrated in the moderate-income geographies that include the Ellsworth office.

The bank has established office hours that accommodate the needs of local residents and businesses. The three branch offices have Saturday lobby hours and extended business hours on Friday. These hours, together with the alternative delivery systems detailed on page 14, make the bank's services readily accessible to all segments of the community.

### **Community Development Services**

According to community contacts, the bank is very supportive of activities that promote the economic and social health of the community; however, many of these activities do not qualify as community development services. The bank's directors, officers, and staff perform some community development services within the Prescott/River Falls/Ellsworth assessment area, the majority of which relate to supporting the economic development of the assessment area by attracting businesses to and fostering business expansion in the area. These services are detailed below.

- A bank director is the community development director for River Falls.
- During the evaluation period, a senior vice president of the bank served on the Pierce County Economic Development Corporation executive committee and served as vice president of the Ellsworth Economic Development Corporation. This individual also served on that organization's finance committee.

As previously stated, there have been few qualified community development service opportunities in this assessment area. Based on information from community contacts and bank management, it appears that the bank is actively involved in economic development projects that benefit the assessment area. Accordingly, the bank's participation in community development services as defined by the CRA is adequate.

### **Conclusion**

The bank's CRA performance in the Prescott/River Falls/ Ellsworth assessment area is rated high satisfactory. Performance under the Lending Test is considered high satisfactory based on the bank's adequate responsiveness to community credit needs, excellent distribution of loans among geographies of different income levels, and the good distribution of loans to borrowers of different income levels and businesses and farms of different sizes. In addition, the bank has an excellent record of serving low-income individuals and small businesses and makes use of flexible underwriting standards and loan criteria. While the lack of community development lending detracts from the overall performance under the Lending Test, the lack of identified unmet needs for community development lending limits the weight placed on this factor. The bank's performance under the Investment Test is rated needs to improve in this assessment area. The bank does not have any qualified investments in its investment portfolio, and it has made limited grants and donations that meet the definition of qualified donations. Finally, the bank's performance under the Service Test is rated high satisfactory. The bank's branches in the assessment area are readily accessible to all segments of the community. The closure of the bank's East Ellsworth office, which was located in a moderate-income geography, did not adversely affect the delivery of banking services to the residents of that area.

## **NONMETROPOLITAN AREA ANALYSIS**

### **DESCRIPTION OF M&I COMMUNITY STATE BANK'S OPERATIONS IN THE MENOMONIE, WISCONSIN, ASSESSMENT AREA**

The Menomonie assessment area is located between the two MSA assessment areas in west-central Wisconsin. Dunn County and Pepin County, the two counties that make up the assessment area, are divided into 10 BNAs. All of the BNAs in the assessment area are classified as middle income.

This assessment area has a combined population of 43,016, according to 1990 U.S. census data. The major communities in the assessment area are Menomonie in Dunn County and Durand in Pepin County. The University of Wisconsin-Stout campus is located in Menomonie. Its student population is approximately 5,000. The population for Menomonie is 14,391, according to 1990 census data. Growth in this assessment area has been modest. The updated 1997 population figure for the assessment area is 45,112, an increase of 4.9%.

Examiners contacted individuals familiar with economic development issues in conjunction with the evaluation. Information received from these individuals and from bank management was used to evaluate the bank's performance in this assessment area.

Economic conditions in the assessment area are generally good. Information gathered as part of a Dunn County Labor Survey in 1997 indicates that the county is suffering from a labor shortage. Area employers reported that they are finding it difficult to recruit and retain employees. The greatest demand is for lower-skilled service positions. One of the reasons employers gave for the difficulty in retaining workers was low wages. There has been significant wage pressure from the nearby metropolitan areas. Agriculture is still a dominant segment of the economy in the assessment area. Most of the farmers in the area have small to medium dairy operations. Low milk prices have hindered farm profitability for the past several years. The largest employer in the assessment area is University of Wisconsin-Stout. Other major employers in the assessment area include 3M and Hunt Wesson, Inc.

As previously stated, CRA divides income into four categories: low, moderate, middle and upper. Based on 1990 census data, the Wisconsin statewide nonmetropolitan median family income is \$30,290. The income levels of BNAs are determined using this figure. According to updated 1998 census data, the statewide nonmetropolitan median family income is \$41,800. This figure is used to classify income levels of borrowers.

The Menomonie assessment area contains 10 BNAs in two counties. All of the BNAs in the assessment area are classified as middle income. Because the counties are not in an MSA, HMDA data is not analyzed for this assessment area. Incomes for the individual BNAs range from 80% to 110% of the median. According to 1990 census data, there are 16,171 housing units in the assessment area. The data show that 63% of the housing units are owner occupied, 29% are rental units, and the remaining 8% are classified as vacant.

According to the 1990 census data, the Menomonie assessment area median family income is \$29,316. The median household income for the assessment area is \$24,191. There are approximately 10,365 families and 14,938 households within the assessment area. Approximately 9% of the families and 16% of the households have incomes below the poverty level. The percentages of such families and households in the assessment area are higher than the nonmetropolitan statewide averages of 8% and 11%, respectively. The distribution of family and household income for the assessment area is summarized in the following table.



MENOMONIE ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL								
	Low Income		Moderate Income		Middle Income		Upper Income	
	#	%	#	%	#	%	#	%
Families compared to median family income	1,935	19	2,048	20	2,577	25	3,805	36
Households compared to median household income	3,837	26	2,348	16	3,120	21	5,633	37

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS—MENOMONIE ASSESSMENT AREA

### Lending test

The bank's performance under the Lending Test for the Menomonie assessment area is rated low satisfactory. While the bank's lending activity is strong, the bank's level of lending to low- and moderate-income borrowers is not as strong as it is in the other assessment areas. The assessment area is composed of all middle-income BNAs; therefore, an analysis of the geographic distribution of loans in the area is not very meaningful. The bank has an excellent record of serving small business in the assessment area and it makes good use of flexible lending programs. The lack of qualified community development lending in the assessment area also contributes to the low satisfactory rating for this assessment area.

### **Lending Activity**

Based on financial data provided by bank management, the bank's net loan-to-deposit ratio for this assessment area is strong and higher than the overall net loan-to-deposit ratio. The level of lending activity compares favorably with the loan-to-deposit ratios for the bank's competitors in the assessment area.

Because this assessment area is not in an MSA, HMDA data is not available for comparison. The bank is not the leading lender in the assessment area for small farm and small business loans. The aggregate data for institutions required to report loan activity reveal that the bank originated 21% of the small business loans and 25% of the small farm loans in the assessment area. Community contacts indicated that competition among financial institutions in the assessment area is strong.

Based on the strong loan-to-deposit ratio and the competitive banking market in the assessment area, the bank's level of lending indicates a good responsiveness to the community's credit needs.

### **Assessment Area Concentrations**

As discussed on page 9, the bank makes a substantial majority of its loans within its three assessment areas.

### **Geographic Distribution of Loans**

Overall, the geographic distribution of the bank's loans reflects adequate penetration throughout the Menomonie assessment area. As previously discussed, the assessment area is composed of 10 BNAs in Dunn and Pepin counties. All of the BNAs are classified as middle income.

A tract-by-tract analysis reveals that the bank has extended loans in each of the BNAs in the assessment area. BNA 9701 and 9702, located in the northern section of Dunn County, have limited activity; however, there are two financial institutions in these BNAs that offer more convenient access to residents of that part of the assessment area.

### Borrowers' Profiles

The bank's level of lending to borrowers of different income levels and to businesses and farms of different sizes is adequate. As previously discussed, CRA classifies income levels into four categories: low, moderate, middle and upper. For purposes of classifying the bank's borrowers, the 1998 Wisconsin statewide nonmetropolitan median family income is compared to borrower's incomes.

The following table shows the percentages of home improvement, home purchase, and residential real estate refinancing loans made to borrowers of different income levels.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*</b>								
	Low Income		Moderate Income		Middle Income		Upper Income	
Loan Type	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Home Improvement	30%	19%	30%	10%	30%	40%	10%	31%
Home Purchase	2%	11%	20%	14%	44%	34%	34%	51%
Refinancing	2%	1%	19%	13%	33%	34%	46%	52%
*Income level is determined using the 1998 Wisconsin statewide nonmetropolitan median family income of \$41,800.								

The data in the table indicate that the bank made 60% of its home improvement loans to low- and moderate-income borrowers. While the number of loans in this category is small, the bank's level of lending reflects its willingness to lend to borrowers of all income levels. The bank's level of home purchase and refinancing is somewhat lower, but there are several reasons why this situation is not unreasonable.

As discussed earlier, approximately 39% of the families and 42% of the households are classified as low and moderate income. Specifically 19% of the families and 26% of the households are considered low income. In the 1997 survey mentioned in an earlier section, respondents indicated that the area suffered from a shortage of affordable housing. The survey results also indicated that many residents in Dunn County are earning poverty-level wages. Accordingly, home purchase loans as well as refinancing loan activity would be low because residents would not have sufficient income to purchase housing or meet underwriting guidelines for refinancing. Median rent in the assessment area is \$334, making renting a home relatively less expensive than purchasing a home. Finally, the competition among financial institutions in the Menomonie area is strong. Given the strong competition and the lack of affordable housing in the area, the bank's level of real estate lending to low- and moderate-income borrowers appears to be adequate.

The bank has made a good distribution of its small business and small farm loans to businesses and farms of different sizes. The bank makes a majority of its small business and small farm loans to entities with gross annual revenues of \$1 million or less. Based on the data reported by the bank for loans originated in 1997, the bank made 70% of its small business loans and 98% of its small farm loans to entities with gross annual revenues of \$1 million or less. This level of lending to small businesses and small farms is

favorable when compared with the level of lending reported by the aggregate lenders for 1996. In 1996, aggregate lenders in the assessment area originated 74% of the small business loans and 92% of the small farm loans to entities with \$1 million or less in gross annual revenues.

A significant majority of the bank's small business and small farm loans were written for amounts of \$100,000 or less. The following table shows the distribution of the bank's lending activity to entities with gross annual revenues of \$1 million or less by loan size.

<b>DISTRIBUTION OF SMALL BUSINESS AND SMALL FARM LOANS BY LOAN SIZE</b>			
Loan Type	Loan Amount \$100,000 or less	Loan Amount \$100,000.01 to \$250,000	Loan Amount \$250,000.01 to \$1 million
Small Business	73%	24%	3%
Small Farm	85%	13%	2%

The bank's level of lending to borrowers of different income levels and to businesses and farms of different sizes is adequate. The bank's low level of real estate lending to low-income borrowers is not unreasonable given the lack of affordable housing. The bank's small business and small farm lending is favorable when compared with the aggregate lending activity in the assessment area.

### **Record of Serving Highly Economically Disadvantaged Areas, Low-Income People, and Small Business**

The bank's record of serving low-income people and small businesses in the Menomonie assessment area is good. There are no highly economically disadvantaged areas in the assessment area. As noted previously, the bank offers a number of loan products directed to low- and moderate-income people. Although the level of real estate lending to low-income individuals is somewhat low, the bank has shown a willingness to extend credit to low-income borrowers. As in the other assessment areas, the bank has a very good record of serving small businesses and small farms.

### **Community Development Lending Activities**

As indicated previously in this evaluation, the bank did not report any community development loans in 1997. The bank has made a number of loans that serve economic development purposes. Such loans however, are generally classified as HMDA or small business loans according to the definitions of the CRA. The bank is an active participant in the Dunn County Economic Development Loan Pool. The bank has \$5 million commitment to the pool. Area banks present funding projects to the Dunn County Economic Development Corporation or the Greater Menomonie Economic Development Corporation. Loans are for business start-ups or expansions. According to bank management and community contacts, there have been few, if any, opportunities for the bank to finance qualified community development project since the previous evaluation.

### **Investment Test**

The bank's performance under the Investment Test in the Menomonie assessment area is rated low satisfactory. As discussed previously in the bank's overall Investment Test section, the bank does not own any investments that qualify as community development investments under CRA.

Although the bank owns securities issued by government units in the assessment area, none is considered a qualified investment. In addition, the bank donates to organizations that provide community development services in the assessment area. The bank's qualified grant activities in the Menomonie

assessment area include donations to the Dunn County Economic Development Corporation and the Greater Menomonie Economic Development Corporation. The bank's grant activity in this assessment area is low, and it does not include any complex or innovative transactions. However, community contacts stated that the bank is regarded as an active participant in economic development activities in the area. Neither bank management nor the contacts mentioned any unmet investment opportunities since the previous evaluation. Given these factors, the bank's performance in this category is considered low satisfactory.

### **Service Test**

The bank's performance under the Service Test in the Menomonie assessment area is rated high satisfactory. The bank's branch location, hours of operation, and alternative delivery systems are readily accessible to all segments of the community. The delivery of the bank's retail services does not vary in a way that inconveniences low- and moderate-income people. There are no low- or moderate-income areas in this assessment area. There have been no changes in branch locations or services that would adversely affect low- or moderate-income people. Finally, the bank participates in an adequate level of community development services.

### **Retail Banking Services, Changes in Branch Locations, and Business Hours**

As with the other assessment areas, the bank operates an extensive product delivery system to provide ready access to its products and services for residents and businesses in this assessment area. The bank operates a full-service office and three full-service ATMs in the Menomonie assessment area. It has not opened or closed any offices in this assessment area since the previous evaluation.

The bank has established office hours that meet the needs of local residents and businesses, including Saturday morning hours and extended Friday evening hours. These hours, together with the alternative delivery systems described on page 14, make the bank's services readily accessible to all segments of the community.

### **Community Development Services**

As with the other assessment areas, the bank is very supportive of activities that promote the social and economic health of the communities in the Menomonie assessment area. Again, many of these activities do not meet CRA's definition of qualified community development services. One of the bank's vice presidents serves on the boards of the Dunn County Economic Development Corporation, the Menomonie Development Corporation and the Western Wisconsin Economic Development Corporation. In addition, this officer assists in administering the Menomonie Economic Development Corporation's Revolving Loan Fund. The bank's real estate loan officer has conducted credit counseling sessions for families in Menomonie's Head Start program, an early education program for low-income families.

Based on information received from bank management and community contacts, it appears that the bank participates in the available community development projects as well as many other projects which support economic development in the assessment area. Accordingly, the bank's participation in community development services is adequate.

## **Conclusion**

The bank's CRA performance in the Menomonie assessment area is rated low satisfactory. Performance under the Lending Test is considered low satisfactory based on good responsiveness to credit needs and the adequate level of lending to borrowers of different income levels and to businesses and farms of different sizes. In addition, the bank's record of serving small business and low-income people also is considered good. However, the lack of community development lending detracts from the overall performance of the bank in this category. The bank's performance under the Investment Test also is considered low satisfactory because of the lack of qualified investments in the bank's investment portfolio. This is mitigated by the very limited qualified investment opportunities that have been available to the bank. Finally, the bank's performance under the Service Test is rated high satisfactory based on the variety and accessibility of delivery systems that make the bank's products and services available to all segments of the assessment area.

## **GENERAL**

The bank has not received any CRA-related complaints since the last evaluation. In addition, no violations of any aspect of the fair lending and fair housing laws and regulations were noted during the evaluation.

## APPENDIX A

<b>Scope of Examination</b>  <p>As of the evaluation date, the bank operated 11 full-service offices, 12 automated teller machines (“ATM”), and one detached paying and receiving facility in five west-central Wisconsin counties.</p> <p>Based on the location of its offices and its lending territories, the bank has defined two metropolitan assessment areas and one nonmetropolitan assessment area for the purposes of CRA.</p> <p>The two metropolitan assessment areas are the Eau Claire assessment area and the Prescott/River Falls/Ellsworth assessment area. The Menomonie assessment area is the bank’s nonmetropolitan area. This CRA evaluation is based on a review of all three assessment areas.</p>			
<b>Time Period Reviewed</b>		<p>We reviewed the bank’s CRA performance based on its activities since the last evaluation, dated June 16, 1997. The residential real estate loan sample is based on the bank’s HMDA loans originated in 1997 and the first quarter of 1998. The small business and small farm data reviewed include the bank’s small business and small farm loans originated in 1997 and the first quarter of 1998.</p>	
<b>Financial Institution</b>  <p>M&amp;I Community State Bank Eau Claire, Wisconsin</p>			<b>Products Reviewed</b>  <p>As part of this CRA evaluation, the following loans were reviewed: small business, small farm, home purchase, refinance, and home improvement residential real estate loans.</p>
<b>Affiliate(s)</b> <p>Not applicable</p>			
<b>List of Assessment Areas and Type of Examination</b>			
<b>Assessment Area</b>	<b>Type of Examination</b>	<b>Branches Visited</b>	<b>Other Information</b>
<u>MSA Assessment Areas</u> <p>Eau Claire assessment area</p>	<p>Full scope</p>	<p>Eau Claire, Chippewa Falls</p>	
<p>Prescott/River Falls/Ellsworth assessment area</p>	<p>Full scope</p>		
<u>Non-MSA Assessment Areas</u> <p>Menomonie assessment area</p>	<p>Full scope</p>	<p>Menomonie</p>	

# **PUBLIC DISCLOSURE**

---

May 11, 1998  
Date of Evaluation

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

---

M&I Community State Bank  
Name of Depository Institution

---

095513750000  
Identification Number of Institution

---

Eau Claire, Wisconsin  
Address of Institution

Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue  
P. O. Box 291  
Minneapolis, MN 55490-0291

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.